

Message Text

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COME-00 EB-11 FRB-02 INR-10 NSAE-00 RSC-01 CIEP-02

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XMB-07 SCI-06 INT-08 SCEM-02 TAR-02 DRC-01 /213 W

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INFO AMEMBASSY BONN

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E.O. 11652: N/A

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SUBJ: EC COUNCIL (FINANCE) MEETING

NOVEMBER 9, 1973

REFS: EC BRUSSELS 3642 AND A-369

1. SUMMARY. THE EC COUNCIL (FINANCE) ON NOVEMBER 9

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(A) APPROVED WITH MINOR MODIFICATIONS THE ANNUAL
REPORT ON THE ECONOMIC SITUATION OF THE COMMUNITY;

(B) AGREED AS A PRIORITY OBJECTIVE TO STEP UP THE
ATTACK AGAINST INFLATION AND TO CONSIDER SPECIFIC

STEPS INCLUDING POSSIBLE ENLARGEMENT OF IMPORT QUOTAS ON PROCESSED AGRICULTURAL GOODS (PROPOSED BY GISCARD D'ESTAING); AND (C) AFFIRMED THEIR INTENTION AT THEIR NEXT MEETING DECEMBER 3-4 TO CONSIDER A SERIES OF CONCRETE PROPOSALS OF THE EC COMMISSION ON ECONOMIC AND MONETARY UNION (EMU).

2. ACCORDING TO OUR SOURCES IN THE COMMISSION AND THE PERM REPS, THE MINISTERS DEEMPHASIZED THE QUESTION OF WHEN THE SECOND STAGE SHOULD BEGIN AND INDICATED WILLINGNESS TO CONCENTRATE ON CONCRETE, PRACTICAL MEASURES TO BE PROPOSED BY THE COMMISSION WITHIN THE NEXT SEVERAL DAYS. THIS IS SEEN HERE AS A NEW AND HOPEFUL APPROACH. IN AN APPARENT SHIFT OF FRENCH POLICY AWAY FROM EMPHASIS ON MONETARY INTEGRATION, GISCARD SAID IT WAS TIME TO DEVOTE MORE ATTENTION TO ECONOMIC POLICY COORDINATION. THERE APPEARS TO BE GROWING SENTIMENT THAT A REGIONAL FUND OF UNDETERMINED SIZE MIGHT BEGIN ON JANUARY 1, 1974 EVEN IF THE SECOND STAGE OF EMU DOES NOT; THAT SHORT-TERM MONETARY SUPPORT SHOULD BE INCREASED THOUGH WITH LIMITATIONS ON HOW AUTOMATICALLY IT IS GRANTED; AND THAT RESERVE POOLING IS PREMATURE AND UNNECESSARY. DESPITE THESE HOPEFUL SIGNS, WE WISH TO EMPHASIZE THAT THE COMMUNITY STILL FACES SERIOUS OBSTACLES IN THE NEXT FEW MONTHS IN ACHIEVING REAL PROGRESS ON EMU. END SUMMARY.

3. ANTI-INFLATION POLICY - THE FIRST PART OF THE COUNCIL SESSION WAS DEVOTED TO A DISCUSSION OF THE FIGHT AGAINST INFLATION, WHICH ALL AGREED WAS THE COMMUNITY'S PRIORITY OBJECTIVE. THE OFFICIAL PRESS COMMUNIQUE ISSUED FOLLOWING THE MEETING STRESSED THE IMPORTANCE OF THE MEMBER STATES' APPLYING, IN CONCERTED FASHION, THE USUAL ANTI-INFLATIONARY DEMAND MANAGEMENT TOOLS SUCH AS TIGHT BUDGETS, HIGH INTEREST RATES, AND RESTRICTIONS ON BANK CREDIT.

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4. GISCARD D'ESTAING PRESENTED A PROPOSED COMMUNITY ANTI-INFLATIONARY PROGRAM (COORDINATED NATIONAL PROGRAMS) IN THE NAME OF THE FRENCH GOVERNMENT. NOTING THAT THE ENERGY CRISIS HAD AGGRAVATED THE PROBLEM OF INFLATION AND THAT THE GUIDELINES IN THE ANNUAL ECONOMIC REPORT WERE VAGUE AND GENERAL, GISCARD CALLED FOR ADDITIONAL AND COMPLEMENTARY MEASURES ORIENTED TOWARDS INTERNAL DEMAND SINCE THE EXTERNAL CAUSES OF INFLATION (SUCH AS HIGH RAW MATERIAL AND AGRICULTURAL PRICES AND THE U.S. TRADE AND PAYMENTS DEFICIT) HAD ABATED SOMEWHAT. GISCARD CALLED FOR ACTION BY THE MEMBER STATES IN THE FOLLOWING AREAS BY MARCH 31, 1974:

- (A) MEASURES TO ADJUST THE TIMING OF TAX COLLECTIONS AND PUBLIC EXPENDITURES SO AS TO REDUCE FISCAL PRESSURES.
- (B) FIXING BY MARCH 31, 1974 OF A TARGET FIGURE FOR GROWTH IN THE MONEY SUPPLY.
- (C) GREATER INCENTIVES FOR SAVING.
- (D) IMPROVED EXCHANGE OF INFORMATION BETWEEN THE NINE ON PRICE INCREASES BY LARGE ENTERPRISES.
- (E) ACCELERATED IMPORTS UNDER EXISTING EC IMPORT QUOTAS AND EVENTUAL INCREASES IN THEIR SIZES, PARTICULARLY FOR THOSE ITEMS MOST SUBJECT TO PRICE INCREASES, SUCH AS PROCESSED AGRICULTURAL PRODUCTS.
- (F) CONSIDERATION OF CONCERTED INCOMES POLICIES.

5. GISCARD'S PROPOSALS WERE GENERALLY WELL RECEIVED. THERE WAS, HOWEVER, SOME IRRITATION ON THE PART OF THOSE, LIKE THE GERMANS, WHO THOUGHT THEY HAD ALREADY DONE THEIR DUTY ON ANTI-INFLATION POLICY AND THAT GISCARD WAS CATERING TO FRENCH PUBLIC OPINION. BARBER SUPPORTED EASED IMPORTATION OF LOW-PRICED FOODSTUFFS, PARTICULARLY FROM DEVELOPING COUNTRIES BENEFITTING FROM GENERALIZED PREFERENCES. HE OPPOSED FIXING OF TARGET FIGURES LEST THEY REMAIN UNFULFILLED AND LEAD TO DISILLUSIONMENT. THE FRG OPPOSED ANY FORM OF CONTROLS ON PRICES AND INCOMES.

6. THE COUNCIL AGREED TO CONSIDER THE INFLATION PROBLEM AGAIN AT ITS NEXT MEETING (FINANCE MINISTERS) ON DECEMBER 3-4 WITH A VIEW TO THE ADOPTION OF ADDITIONAL MEASURES THAT WOULD RAPIDLY BE APPLIED ON A PARALLEL LIMITED OFFICIAL USE
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BASIS IN THE VARIOUS MEMBER STATES.

7. ECONOMIC AND MONETARY UNION - IN A MOVE THAT APPARENTLY SURPRISED THE MEMBER STATES -- AND EVEN PREVENTED THE MINISTERS FROM MAKING THEIR PREPARED STATEMENTS -- EC COMMISSION VICE PRESIDENT HAFERKAMP PRESENTED A PAPER (BEING POUCHED TO STATE/RPE, TREASURY AND FRB) ANNOUNCING THAT THE COMMISSION WOULD SUBMIT WITHIN THE NEXT SEVERAL DAYS A SERIES OF DETAILED MEASURES ON ECONOMIC AND MONETARY UNION.

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REFERRING TO THE COMMITMENT UNDERTAKEN AT THE

OCTOBER 1972 EC SUMMIT, THE COMMISSION CALLED

UPON THE COUNCIL TO ADOPT, BEFORE THE END OF 1973:

(A) A RESOLUTION EXPRESSING THE INTENTION TO MOVE

TO A THREE-YEAR LONG SECOND STAGE OF ECONOMIC AND MONETARY

UNION -- AND GIVING AN OUTLINE THEREOF;

(B) A DIRECTIVE TO PROMOTE STABILITY, GROWTH AND FULL

EMPLOYMENT WITHIN THE COMMUNITY;

(C) A DECISION ON THE ACHIEVEMENT OF GREATER CONVER-

GENCE OF MEMBER STATE ECONOMIC POLICIES AND REINFORCEMENT

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OF CURRENT PROCEDURES FOR COORDINATION AND

CONSULTATION. THESE WOULD INCLUDE BIWEEKLY MEETINGS OF

THE HIGH-L COORDINATION GROUP, MONTHLY ONE-DAY

MEETINGS OF THE COUNCIL (FINANCE), AND PRIOR CONSULTATION

ON IMPORTANT DECISIONS, PARTICULARLY EXCHANGE RATE CHANGES;

(D) A REGULATION ON THE MONETARY COOPERATION FUND

THE PURPOSE OF WHICH IS TO ORGANIZE THE POOLING OF

RESERVES, ADJUST CURRENT SHORT-TERM MONETARY SUPPORT

FACILITIES, AND DEVELOP THE RESPONSIBILITIES OF THE FUND;

(E) A DECISION ESTABLISHING AN ECONOMIC POLICY

COMMITTEE FUSING THE SHORT-TERM, BUDGET, AND MEDIUM-TERM

POLICY COMMITTEES.

8. THE COMMISSION'S PROPOSAL FURTHER ASKED THE COUNCIL TO AGREE BEFORE THE END OF 1973 ON (A) THE PRINCIPLE OF A COMMON POSITION, EXPRESSED BY A COMMON SPOKESMAN, ON INTERNATIONAL MONETARY PROBLEMS, (B) THE BEGINNING OF A REGIONAL POLICY AND (C) STRENGTHENING OF THE POWERS

OF THE EUROPEAN PARLIAMENT.

9. ACCORDING TO OUR SOURCES, THE COMMISSION'S INITIATIVE, MANY ASPECTS OF WHICH WERE NONCONTROVERSIAL, WAS WELL RECEIVED EXCEPT FOR THE PROPOSALS OF THE SECOND STAGE AND A COMMON SPOKESMAN ON INTERNATIONAL MONETARY ISSUES. THE COUNCIL AGREED THAT THE COMMISSION SHOULD PRESENT CONCRETE PROPOSALS WITH LEGAL TEXTS WHICH, FOLLOWING STUDY BY THE COORDINATING GROUP IN LIAISON WITH THE MEMBER STATES, WOULD BE CONSIDERED BY THE COUNCIL (FINANCE) AT ITS MEETING DECEMBER 3-4.

10. IN THE ENSUING DISCUSSION, WHILE NO DECISION WAS TAKEN ON WHAT WOULD HAPPEN ON JANUARY 1, 1974, IT BECAME INCREASINGLY CLEAR THAT THE MEMBER STATES WERE BACKING AWAY FROM THE ENTIRE QUESTION OF WHETHER OR NOT A SECOND STAGE SHOULD BEGIN ON JANUARY 1, 1974. INSTEAD THEY SEEMED TO BE CONCENTRATING ON A MORE FLEXIBLE, PRAGMATIC APPROACH CHARACTERIZED BY CONCRETE MEASURES RATHER THAN THE FORMALISM OF STAGES AND DATES. EVEN THE COMMISSION, WHILE CALLING FOR THE SECOND STAGE TO BEGIN ON TIME, STRESSED MORE THE CONTINUOUS PURSUIT OF ECONOMIC AND MONETARY UNIFICATION. HAFERKAMP, IN LIMITED OFFICIAL USE
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A PRESS CONFERENCE FOLLOWING THE COUNCIL, SAID THE COMMISSION WOULD STRESS CONTINUOUS DEVELOPMENT OF EMU THROUGH A SERIES OF CONCRETE DECISIONS AND MEASURES FOR WHICH THE DATE OF JANUARY 1, 1974, WOULD BE IMPORTANT BUT NOT DECISIVE.

11. GISCARD REPORTEDLY EXPRESSED ASTONISHMENT AT ALL THE CONCERN ABOUT MOVING FROM SOMETHING THAT HAD NOT TAKEN PLACE (I.E., STAGE ONE) TO SOMETHING NO ONE KNEW ANYTHING ABOUT (STAGE TWO). WHILE NOTING THAT A NUMBER OF STAGE ONE GOALS HAD NOT BEEN FULFILLED, GISCARD APPARENTLY AVOIDED MAKING THE BEGINNING OF STAGE TWO CONDITIONAL ON A RETURN TO THE SNAKE BY THE UK, IRELAND AND ITALY. AT THE SAME TIME HE WELCOMED THE EMPHASIS ON A SERIES OF CONCRETE MEASURES AND EFFORTS TO COORDINATE NATIONAL POLICIES. IN THE VIEW OF OUR CONTACTS, GISCARD'S REMARKS INDICATED A POSSIBLY IMPORTANT SHIFT AWAY FROM FRANCE'S TRADITIONAL MONETARIST POSITION TOWARD GREATER ACCEPTANCE OF PARALLEL PROGRESS IN MONETARY AND ECONOMIC COORDINATION.

12. THE FRG REPORTEDLY EASED ITS RESERVATIONS ON THE BEGINNING OF STAGE TWO WHILE SOME MEMBER STATE CURRENCIES WERE FLOATING INDEPENDENTLY. THE GERMANS ALSO ACCEPTED THE CREATION OF A REGIONAL FUND BY JANUARY 1, 1974, THOUGH WITH SMALLER RESOURCES THAN RECOMMENDED BY THE COMMISSION. IN GENERAL, OPPOSITION TO THE REGIONAL FUND DIMINISHED, AND IT WAS THOUGHT THAT THE FUND COULD BEGIN AT LEAST IN AN ADMINISTRATIVE SENSE, ON JANUARY 1, THE SIZE OF ITS FUNDING AND EXTENT OF ITS DISBURSEMENT REMAINING UNSETTLED.

13. THE MINISTERS' DISCUSSION REVEALED FAIRLY WIDESPREAD SUPPORT FOR INCREASED AND STREAMLINED SHORT-TERM MONETARY CREDITS IN SUPPORT OF THE COMMUNITY'S INTERNAL MONETARY ARRANGEMENTS, THOUGH WITH A LESSER DEGREE OF AUTOMATICITY THAN IN THE COMMISSION'S ORIGINAL PROPOSAL.

14. ON RESERVE POOLING, THE COMMISSION CONTINUED TO PRESS THE PLAN WITH SUPPORT FROM THE UK, ITALY AND LIMITED OFFICIAL USE
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BELGIUM. THE GERMANS MAINTAINED THEIR OPPOSITION, HOWEVER, WITH BACKING FROM THE NETHERLANDS. FRENCH SUPPORT FOR POOLING APPEARED TO WEAKEN IN FAVOR OF GREATER EMPHASIS ON COORDINATION. OUR CONTACTS TELL US THEY EXPECT THE PROPOSAL TO BE PUT QUIETLY ASIDE, ALTHOUGH SOME AGREEMENT ON TOKEN POOLING -- LARGELY FOR PSYCHOLOGICAL REASONS AND WITHOUT ANY LINK TO SHORT-TERM MONETARY SUPPORT MEASURES -- MAY STILL BE POSSIBLE.

15. ACCORDING TO HAFERKAMP, THE COUNCIL (FINANCE) FORESEES IT MAY NOT HAVE TIME TO REACH THE NECESSARY DECISIONS AT ITS NEXT MEETING ON DECEMBER 3-4 AND THEREFORE ANTICIPATES ANOTHER MEETING ON DECEMBER 17 FOLLOWING THE COPENHAGEN SUMMIT. THE DECEMBER 3-4 MEETING COULD BE A JOINT COUNCIL WITH FOREIGN MINISTERS (WHO ARE ALSO HOLDING A COUNCIL MEETING THEN), THOUGH THIS HAS NOT YET BEEN DECIDED.

16. COMMENT:

(A) ALTHOUGH THE COUNCIL'S DECISIONS WERE PRO-
CEDURAL RATHER THAN SUBSTANTIVE, THERE SEEMED TO BE, IN CONTRAST TO THE LAST SEVERAL COUNCIL (FINANCE) MEETINGS, GREATER POLITICAL WILL TO MAKE PROGRESS ON SOME BASIS OR OTHER.

(B) BOTH THE COUNCIL AND THE COMMISSION EVINCED A SOMEWHAT LESS AMBITIOUS AND MORE SUPPLE, PRAGMATIC APPROACH TO EMU.

(C) THE COUNCIL DEMONSTRATED INTEREST IN SETS
OF CONCRETE MEASURES OFFERING THE MEMBER STATES A RANGE
OF CHOICE IN NATIONAL POLICIES THAT WOULD BE COORDINATED
(RATHER THAN INTEGRATED) THROUGH COMMUNITY INSTITUTIONS;
THESE IS LESS INTEREST FOR NOW IN MONETARY INTEGRATION.

17. WE WISH TO STRESS, HOWEVER, THAT THE COMMUNITY
STILL FACES A DIFFICULT ROAD -- WITH MANY CHANCES
FOR BACK-SLIDING--IN TRYING TO PUT TOGETHER
AN ECONOMIC AND FINANCIAL PACKAGE BY THE END OF THE
YEAR. END COMMENT.GREENWALD
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